RV BUSINESS

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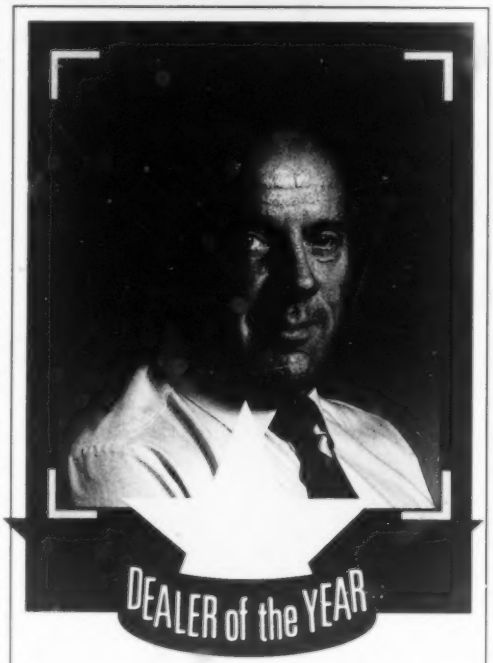
Fleetwood Stresses '92 Economy, New Quality Program

Fleetwood Enterprises Inc. increased its market share during the sluggish 1991 model year and is seeking further market inroads during the '92 economic recovery, Fleetwood officials told a total of some 800 dealers attending the firm's three regional dealer meetings.

At the meetings Aug. 25-31, in Las Vegas, Nev., Fleetwood's senior managers said the company is preparing to increase its dominance in the RV industry in the 1992-model year by introducing a host of new and upgraded products and an array of new quality programs that promise to alter the entire corporate "culture" of the Riverside, Calif., RV manufacturer.



TOP QUALITY DEALER: Earl Stoltzfus was named the Top Quality Dealer of the Year. See page 20.

A pivotal part of Fleetwood's 1992 game plan, however, is an improved economy. And Fleetwood officials do see improvement. "Fiscal year 1991 has been a very challenging period for our industry," Elden L. Smith, senior vice president for Fleetwood's RV Group, said in his address at the Las Vegas Hilton. "A recession has made business very difficult, particularly in the East and Midwest. We feel the most difficult period of this recession is past. In fact, our sales this quarter (beginning Aug. 1) are running 38% ahead of last year. The recovery is not going to be quick. The progress to more robust economic growth will be steady."

Reviewing the year, Smith outlined Fleetwood's market share positions and the fact that it now occupies 28% of the U.S. towable market and more than a third – actually 35.2% – of the motorized sector.

Perhaps the most consistent theme of Fleet-

continued on page 11

Price-Conscious Units Dominate Midwest Show

Efforts by the Indiana Manufactured Housing Association/Recreation Vehicle Indiana Council (IMHA/RVIC) to spur RV makers to exhibit more new-model RVs at the association's 37th Annual Midwest Manufactured Housing & RV Show in South Bend, Ind., appear to have been moderately successful.

There was a wide array of new 1992-model product on display at this year's Aug. 20-25 show, which had been moved by IMHA/RVIC to a later August timing than past shows in order to give RV makers more time to complete development of '92 equipment.

Once again, low-cost units targeted at entry-level and price-conscious buyers dominated the exhibition. The list of price-leader products ranged from a little $2,495 fold-out from A Frame Camper Co., Longview, Texas, to a 30- to 32-foot Monterey diesel pusher Class A from Cobra-Van American Inc. (CVA), Goshen, Ind., retailing for less than $60,000.

CVA, by the way, probably brought more new product to South Bend than any other exhibitor – at any price point. In addition to the Monterey pusher, CVA unveiled a $25,000 (retail) Daytona micro-minimotorhome on a Toyota chassis; a line of lightweight 21- to 27-foot Sunrise towables with aerodynamic front caps; and the first prototype of a higher-priced line of slick fiberglass-walled Voyager towables.

Also focusing on the mid- to high-price end was Jayco Inc., Middlebury, Ind., which brought its updated top-of-the-line Designer Series towables.

Meanwhile, Silver Eagle Coach Inc., Vina, Ala., displayed its revised front-gas and rear-diesel Silver Eagle Class As. And Clarion Motors Corp., Elkhart, Ind., a Coachmen Industries Inc. company, rolled out leather packages – plus commercial versions – for its downsized, front-wheel-

continued on page 7

8 Starcraft Starts StarQuest Van Division

8 RVIA Revamps Legal Services

9 Dometic Explains New Policy on Distribution

9 Skyline Stresses Commitment to Calif. Market

9 Thor Buys Bus Assets of National Coach

10 Ford Announces Truck & Van Lineup for '92

10 Starcraft Offers Safety Upfit Kit to Converters

11 Spartan Scores With Analysts as Earnings Climb

11 RVB Interviews Fleetwood's Elden Smith

12 Emerson Quiet Kool Revamps Distribution

RV BUSINESS

VOLUME 42, NUMBER 13 | OCTOBER 7, 1991 | TWO DOLLARS

15

23

COVER PHOTO: ED HILLE

NEWS AND TRENDS

Industry News ____ 7

RV People ____ 15

Quarterly Forecast ____ 18

FEATURES

Top Dealer ____ 20

Earl Stoltzfus of Stoltzfus RV's and Marine, West Chester, Pa., has been selected as the No. 1 Top Quality Dealer of the Year.

TRVA Supershow ____ 23

This brief guide to the Texas Recreational Vehicle Association's Supershow '92, held Oct. 9-13 in the Market Hall in Dallas, includes an overview of events and a list of exhibitors.

Special OEM Section ____ 25

This monthly special section focuses on products and news from suppliers to OEM RV manufacturers. Products featured in this issue range from a new camera and monitor to a vapor-injection curing system.

Tow Trends ____ 29

The RV industry should be pleased by the latest crop of tow vehicles from the Big Three automakers. Higher tow ratings, improved powertrains and increased safety are hallmarks of 1992-model units.

Performance Products ____ 35

Dealers and manufacturers stress the profits to be made in the expanding aftermarket for performance-enhancing products for RVs—such as turbochargers, gear splitters, fuel-injection systems, intercoolers and timing controls.

DEPARTMENTS

Calendar ____ 40

In Brief ____ 42

Profitmakers ____ 44

Classified Advertising ____ 46

Info Fax to Advertisers ____ 48

Commentary ____ 50

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RECOVERY WILL CONTINUE INTO 1992

MORTON J. MARCUS

In our forecast article three months ago, we asserted that the recession was over. But, because it had not ended as soon as we had expected, we had to do the ritual dance of the errant economist, whirling and twirling to explain why the recession lingered.

Now, we can say, "Yes, the recession is over, and the recovery is in progress." No dancing is required. The problem now is that the recovery is not robust, and the economic news is mixed. This recovery is advancing so slowly that many cannot see it; we may yet have to put on our dancing shoes.

However, our most recent forecast continues to indicate that the recovery is a reality; it may not be everything that everyone could want, but it will hold up through 1992.

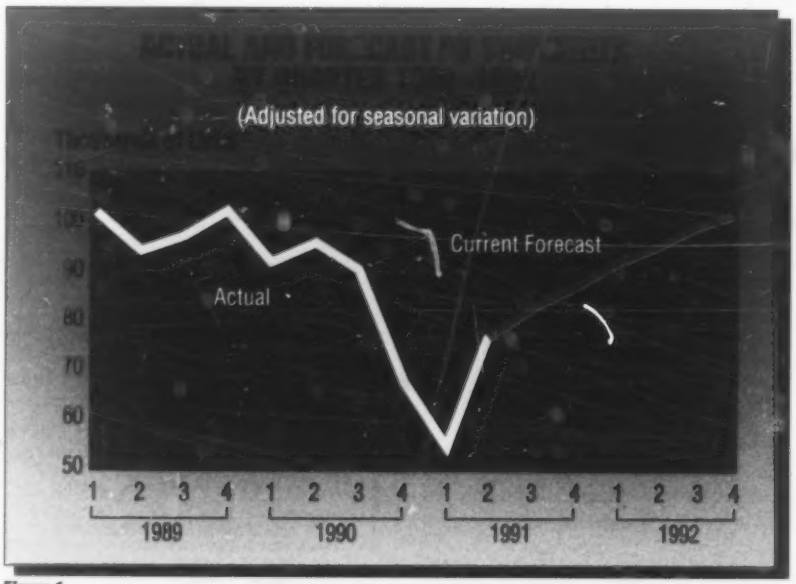

Figure 1

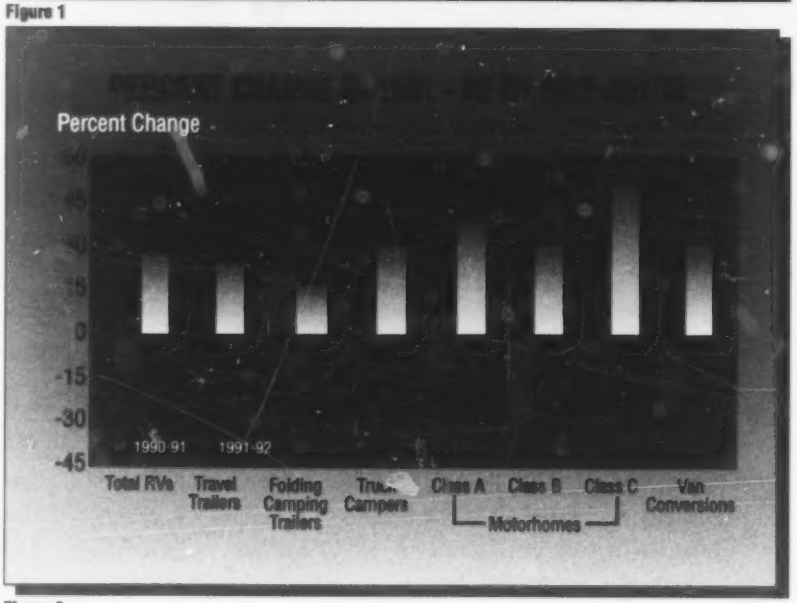

Figure 2

The RV Forecast

Before we examine the national economy, let's skip to the bottom line. How will the RV industry do in the balance of this year and into 1992?

First, note that the industry shipped 78,000 units in the second quarter of 1991. *(See Figure 1.)* This was a major breakout from the recession low of 56,400 shipments in the first quarter. (As usual, all data are seasonally adjusted.)

The steady improvement expected for the balance of 1991 and into 1992 looks impressive. But the reader should note that the improvement in Figure 1 is at a decreasing rate. The increases in shipments from quarter to quarter get smaller as we go through the forecast period.

Despite the recession, which dragged into the second quarter, we forecast an *up* year for towables in 1991. All three groups of towables in Figure 2 show positive growth in 1991 after a down year in 1990. The increases may be very minor, as in the case of travel trailers, but the direction is clearly upward. Folding camping trailers, which had the most severe downward movement in 1990, realize the greatest percentage increase in '91. As a group, total volume of towables for 1991 is expected to be up about 6,000 units. However, this will still leave towables nearly 2,000 units below 1989 levels.

In contrast, motorized units will not overcome the downward momentum of the early months of 1991. Even though there was improvement in the second quarter, and there will be growth during the third and fourth quarters, none of the motorized types are forecast to top their 1990 shipments levels.

For 1991 as a whole, despite improvements during the year, van conversions are expected to be down by more than 50,000 units from the 1990 total. Motorhomes are forecast to lose 6,300 units in '91 compared with their 1990 level. As a group, motorized

RVs will end 1991 off by approximately 15,500 units from 1989.

The positive direction in the last half of 1991 should continue into 1992. As seen in Figure 2, all types of RV units have growth in shipments in '92. Total shipments should increase by more than 85,000 units from the levels of 1991. Travel trailers should add 28,000 units in 1992. Shipments of motorhomes are forecast to grow by more than 19,000 units. Van conversions are expected to add nearly 39,000 units. These impressive gains will bring all types of RVs to levels above their 1990 performances, with the exception of Class B motorhomes and van conversions.

The National Forecast

The recession, which began in mid-1990 and which we believe ended in the spring of 1991, was centered in the first quarter of this year. As a result, the entire year of 1990 showed a modest 1% gain in real gross national product (GNP), while 1991 will show a small three-tenths of 1% decline. These annual figures, shown in Figure 3, hide the upturn during the second half of 1991. The improvement does show clearly as a 2.2% increase in real GNP for 1992.

How does the economy advance in 1992? Figure 3 shows that the leading sector will be residential investment, which had been in strong decline during the preceding two years. Business investment and export activities also advance but not with any great strength. The growth of imports is consistent with the revival of the economy in general; as American consumers and businesses spend more, they will spend on imports as well as on domestic products.

The problems in the economy are due to the behavior of consumers and government. We do not make better progress because consumer spending fails to advance with any major strength, and government is a drag on the economy.

Consumer debt remains high, and consumer worries seem to be magnified (perhaps without foundation). Real spending (after adjustment for inflation) by the federal government is expected to decline. Washington's finances are a mess that will not improve in an election year. In addition, Washington is continuing to cut back on aid to state and local governments. These units cannot increase spending without new revenues, and they have no politically acceptable sources of new monies.

Interest rates will continue to ease, but only very slowly. The Federal Reserve, which has the dominating influence on interest rates, is concerned about inflation and the value of the dollar. As Figure 4 indicates, there will be more growth in the money supply in 1992 than in this year, as inflation becomes less of a concern and the dollar strengthens in world markets.

Unemployment rates typically continue to rise in the early stages of recovery. Although it may be "normal" in this stage of the business cycle, unemployment is a serious personal matter for millions, and it cannot be dismissed as a political issue. This factor will encourage the Fed to ease up on the money supply and allow interest rates to fall slowly.

ANNUAL GROWTH RATES AFTER ADJUSTMENT FOR INFLATION

	1990	1991	1992
		—Forecast—	
Gross National Product	1.0	-0.3	2.2
Consumer Spending	0.9	0.4	2.4
Business Investment	1.8	-3.6	3.4
Residential Investment	-5.4	-12.3	8.0
Exports	6.4	3.8	4.1
Imports	2.8	0.9	7.7
Govt. Purchases			
Federal	2.6	0.5	-2.9
State & Local	3.0	0.6	0.5

Figure 3

Motor-fuel prices will not rise as rapidly as consumer prices in general, and the real disposable income of consumers will advance after the 1991 decline.

KEY FACTORS IN THE FORECAST

	1990	1991	1992
		—Forecast—	
Prime Interest Rate (%)	10.0	8.5	7.9
Value of the Dollar (1973 = 100)	89.0	90.9	93.0
Unemployment Rate (%)	5.5	6.8	7.0
% Change at Annual Rates:			
Money Supply (M2)*	5.2	3.6	4.9
Real Disposable Personal Income	0.9	-0.7	2.0
Consumer Price Index	5.4	4.5	3.9
Food & Beverages	5.7	4.3	3.3
Motor-Fuel Prices	14.3	-0.4	1.9

*M2 consists of the nation's basic money supply of currency, plus demand deposits, plus savings accounts at commercial banks.

Figure 4

ANNUAL TRENDS

	1990	1991	1992
		—Forecast—	
Unit Auto Sales (millions)	9.5	8.7	9.6
Unit Housing Starts (millions)	1.2	1.0	1.2
Personal Savings Rate (%)	4.6	3.6	3.4
% Change in Compensation per Manhours	3.5	4.2	4.7
Productivity	-0.4	1.2	1.7
Unit Labor Costs	3.9	3.0	3.0

(Compensation – Productivity = Unit Labor Costs)

Figure 5

For the RV industry, the good news is that motor-fuel prices will not rise as rapidly as consumer prices in general, and that the real disposable income of consumers will advance after the 1991 decline. These factors will also aid the auto industry. *(See Figure 5.)*

As consumers get back on their feet, they will reenter the housing market, pushing housing starts back to more respectable levels but cutting into the personal savings rate as they go into debt to finance their houses and the furnishings for those homes, as well as those new autos.

Among the most positive factors in this forecast is the low underlying rate of inflation. With high unemployment and recovery coming on line slowly, there will be little upward push in unit labor costs. Firms will enhance productivity, with only moderate increases in compensation per manhour.

Final Note

On balance, '92 looks like a nice year, although not a great year – a kinder and gentler year for George Bush to seek reelection. But the absence of a dynamic, growing economy and sustained high unemployment will give his opponents good ammunition, too. Without new foreign crises, it is possible that the campaign of '92 will focus on domestic issues. Policy on domestic issues, if faced directly and honestly, would be a welcome turn toward addressing long-term, neglected aspects of the American economy. Δ

Morton J. Marcus is the director of the Indiana Business Research Center at Indiana University School of Business, where he is also a member of the faculty. Marcus specializes in using statistics to identify economic trends.